Promotional Gifts Market Trends in Brazil

30/06/2011 | by [Alejandro Mugetti]

The markets have never been static, they are in constant change and the industry of promotional gifts and corporate, is not an exception.

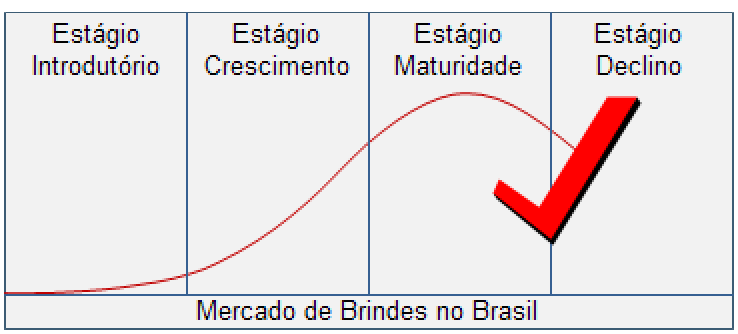
Agents as the new economy, technology and globalization are creating profound transformations. What industries are growing or declining? Where are the opportunities?

The present study was divided into the following parts, in order to facilitate the reading.

1. Preliminary Concept
2. The Gifts market in Brazil
3. Strategic moves
4. Conclusions
5. Comparison: Internet for Gifts´ Annual
6. Statistics of Internet usage in Brazil

Preliminary Concept

The Red value chain



To understand the gifts market in Brazil, we must analyze an agent that is deeply transforming the game rules. The traditional gift market segment reached its maturity. This implies that profit margins fell, the entry barriers for new firms are high and there is a hyper-competition (ten years ago there were 800 enterprises, today exceed the 4300) which resulted in a price war in the market.

The background factors that has helped to this scenario ae the popularization of the internet and technology in General. So on the one hand the reduction of marketing costs and manufacturing, producing the fall of the prices of products worldwide.

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But the two main factors that led to the acceleration of this process, are in part by the appearance of massive importers (generally groups of enterprises of Chinese origin) and by millions of new micro enterprises operating with very low fixed costs, practicing a guerilla marketing. We call the combination of both factors hereinafter, "the Red value chain" or ' RVC

Characteristics of the Red value chain:

- Being a price based strategy, other factors such as service, warranty, brand, etc. are not considered for the value.
- The operation is focused at the moment, mainly in São Paulo.
- It would be impossible to maintain a massive sale structure like this, without a strong political support in Brazil and in China.
- Directly or indirectly the Chinese Government itself is boosting the increse of international sales without mattering with the consequences. This critic had been dealt at the meeting of the G20 in Seoul
- Killing the market will bring negative consequences for their own killers under the medium term. So we will have new movements soon.
- The products that enter in the RVC suffer a "downgrade". They are converted into comodities and offered by many companies to the same customers with a single differential: the price.

The Red Value chain has been accelerating the maturity stage market of gifts in Brazil.

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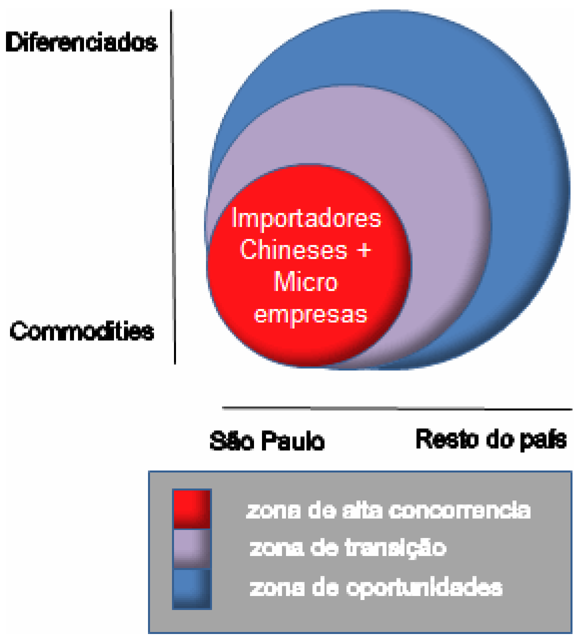
The Gifts market in Brazil

The present scenary.



São Paulo.

- With the exception of a few niches, we have a price war in the gifts market in Brazil and more specifically in São Paulo.
- The price war has changed the perception of the value of the products in the "head" of customers. Sensitivity to price has increased, but have greater weight in purchasing decisions.
- Traditional importers with a structure: import – brindice or freeshop, representatives – print, can't compete with RVC. The output is not "cosmetics", the business model itself must be re thought.
- Resellers with a traditional structure and low differentiation find themselves under the fierceful competition.
- The sector's industries also felt the impact of the market´s killing, but as they have a different cost structure that the importers and furthermore be independent regarding to stocks, are more flexible for the closing of large orders which can balance their finances, were less affected in General.
- Many new niche businesses and new importers have emerged in recent years and are seeking a place in the market. The entry barriers are high for the access to the national market at this stage.

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The rest of the country.

- The competition is smaller and different that in Sao Paulo, formed by some companies of São Paulo who work at national level and some local businesses.
- Many companies are fabricating gifts for the first time, especially outside of the São Paulo – Rio de Janeiro axis.

General.

- Customers are more demanding about the expectations of quality and variety of products. They expect also a more professional, and responsive customer service. This new type of consumer is presented by Marcos Gouvêa de Souza in the book "Neoconsumer – Digital, Multichannel and Global" and characterized as a client that compares prices, conditions and characteristics of products over the Internet, uses social networks to praise and criticize the experiences he had and in the process, completely changes the way companies must relate to him.
- The internet consolidates itself as the main commercial channel for this market. According to the latest study from market to B2B operations of CETIC-br, 93% of Brazilian companies, research in the Internet, to purchase a new product/service.
- The annuals of the goodies (brindice/freeshop) remained as a source of secondary ressearch or as a printed economic book performed in group.See Comparative table: Internet for Annuals.
- There is a tendency to reduce the intermediary layers that do not generate value. The commercial representative profile gives place to an analyst with a capacity to perceive and generate new opportunities.

Reaction of Brazilian Gifts Companies.

- One of the counterattacks of the Brazilian industrial sector of gifts was to achieve the promulgation of the recent Anti-Dumping Law of pens from China. Unfortunately a series of exceptions were achieved by the other party, but without a doubt it is an important precedent.

I believe that the path to the local industry goes through three questions:

- *Hone in on design, technology and processes improvement.*
- *If there is evidence of some illegal deals regarding the importing company, make the report at the relevant organs or directly in the Commission which investigates the smuggling cartel in Brazil.*

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- *As for attempts to get some type of block for dumping, it should have a strong political support (maybe of FIESP) and focus directly on exchange rate dumping.*
- Some importing companies, entered in the industrial sector with the aim of reducing the impact that the "price war" was producing. For the fact that this movement was carried out late, by multiple companies and a cloned single area (costuráveis)they failed to achieve the expected results.
- Other companies in response, has moved to specific niches of the market where it maintains some comparative advantages for costs, technology, know-how, etc.
- Few companies have re-designed their business model to a current paradigm.
- Many companies didn't realize in time the signs and were in a difficult position or came out of the market.

What will be next

- Some massive importers and local industries that acted exclusively in distribution, seeing limited their ability to grow, will pursue any of the following alternatives:
    1. start selling directly to the final public.
    2. Enlarge the commercialization to other cidades/markets.
- Also, we can expect in the coming years the entry of foreign firms with local joint ventures and an increasing merge between companies, as an alternative to expansion.
- The worst that can happen to a product is becoming a comodity and that is precisely what happens with the accelerated downgrade that the gifts suffer when they enter in the RVC.

An example of this are the pen drives, which are losing any other attribute, such as quality,garanty, brand, etc getting as a single differential, the price.

- Two new initiatives Anti-Dumping are in process.

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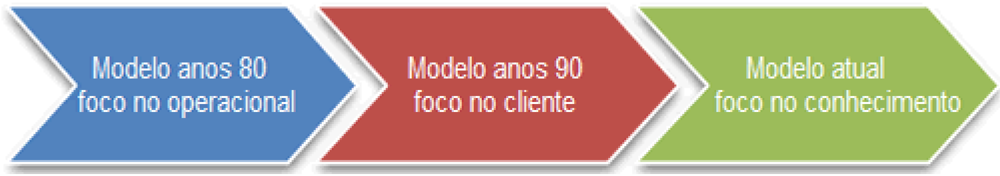
Strategic moves

Transition to a knowledge-based company.

While some companies let themselves stagnate others choose to look with a new focus each change, prefer to understand what is happening, looking for new opportunities and adapt their business models to the new reality.



The key issue for the coming years passes through **knowledge to construct a value context.** A chain of people/companies associated and coordinated in order to provide a better mix of values than the competitors, without incurring a large and costly structure, by the middle of the intensive use of new technologies (ICT – information and communication technology).

A knowledge-based company defies the established relationships, because it converts their clients on suppliers, suppliers on clients, competitors on partners in the form of a network that generates value.

Within this model the company makes a strong bet including as resources, the creation of intellectual capital focused on innovation. The reason is simple, the intellectual capital makes the compilation of information into knowledge, this being the main transformer broker markets and the most dear strategic advantage.

The enterprise of knowledge is not a static model, on the contrary, it is a way to drive a new management extremely dynamic.

Knowledge-based businesses are aligned with sustainable, environmental and financial concepts, and thinking in the world as a better place to live. The role of marketing that was communicating,

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helping in sales and advertising, will change to something more subjective, working with the consumer´s feeling.

"Today's consumers, seeing a brand, are able to discern immediately if it is fake or real based on conversations we had on the Internet "Philip Kotler

The Model goals

- Be flexible before the changes. You may see a strong competitor coming from where less expected, a change in imports´legislation, an international crisis, etc.
- Be fast in the opportunities, especially in creating new products, in detection of niche markets and new forms of marketing.
- Quality in service. The new model is centered in to perceive and respond quickly. This means you have a structure for value-added products, even being a small business.

Essential Questions

- Downsizing including the drastic reduction of fixed costs. Transforming fixed costs into variables, whenever possible, keeping strategic activities only internally.
- Officials much more qualified. Few professionals with experience and with an adequate technological support will get a better performance than many ones with less preparation.
- Re-engineering all company processes, aiming at a more agile and flexible customer service
- Intensive use of ICT – information and communications technology with the goal of reducing costs and increasing efficiency.
- Align the organizational structure to strategic planning.

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Possible strategies

São Paulo and region´s market.

Phase	Reseller	Importer or distributor	Industrial
Products that are not in the RVC	Evaluate competition within niche and establish strategies.		
Products that are entering the RVC e.g. ecologicals and USB pendrives	other forms of differentiation valued by customers. Extend marketing outside São Paulo.	Differentiation by models and stocks of each model. Total or partial product manufacturing in Brazil.	Redução de custos, novos modelos. Diferenciação pelo estoque, garantia, atendimento. Gestão de bloqueio por dumping junto com outras empresas.
Products that are already in the RCV	price lists segmented geographically.Assess whether their value chain can compete with RCV. If not, find another market/product.		

rest of the country

Following the thought of w. Chan Kim and Renée Mauborgne, in his excellent book The Blue Ocean Strategy, the most obvious choice for companies of Sao Paulo, would be to achieve greater participation in national market. However, we note that the traditional strategies of representatives or subsidiaries in other cities, has not worked out for various reasons.

An alternative channel that actually has made possible the globalization, is the Internet. A consolidated brand with a website well positioned on search engines, in a market where 93% of the companies consult on the internet to make the purchases is today the best strategy to geographically diversify your marketing.

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Conclusions

Opportunities

Especially the advertising agencies, are seeking promotional items with a high degree of innovation and design. New formats, materials, textures. News to make people's life easier and exclusive products for promotional campaigns.

> **According to the author of "the marketing second Kotler", we are in the era of the inverse marketing. Today the clients are those those who say how much they are willing to pay, what advertising they´ll see and even draw and customize the product that they want.**

- The Know-how in design in new technologies such as CAD/CAM/CNC to develop highly customized products within a short period of time and at a low cost maybe is now the largest strategic advantage.
- Import products (News) that are not yet in the RCV.
- Establish a pricing strategy with a differentiated table for Sao Paulo.
- Expand the presence in other states mainly in RJ by upcoming events and the Northeast by growth.
- Partnering to reduce costs by dividing industrial facilities (shared services center) or commercial (call center for example) between two or more undertakings.
- Participate in online shopping portals. The advancement of technology and the popularization of the internet have allowed the creation of online shopping portals. Many companies and State agencies are adhering to this type of modality to make your purchases by bids, auctions, etc.
- Some big companies are starting to outsource the purchasing and the logistics of gifts in a single company, that has reliability (structure and know-how) required for this type of operation.
- Around 5 companies of the sector, has conducted specific exports without continuity. Most businessmen still don't understand the advantages of trading with other countries. Many of them don´t go for foreign trade for fearing a bureaucratic burden.
- Within the fastest growing niches we have products with eco-appeal or well-being, electronic gadgets and highly customized or specially developed products.
- New forms of marketing have appeared on the internet, one that has had the most acceptance are the group purchases.

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The entrepreneur is the engine of innovation and therefore, the process of generating wealth in capitalist society. Entrepreneurship requires appetite for risk, but compete on unequal conditions can make quitting to many. China "pushing" their products with Exchange rate dumping to the world, regardless of consequences and local factors such as corruption and smuggling, may alter the balance of a market.

The reaction of industrial sector of gifts has been quite shy till now, but the recent blocking by dumping of pens imported from China is an important precedent for future actions. I believe that the entrepreneurs should be more united to require greater transparency and rules, from the governmental authorities.

Also we don't take with many expectations the possibility of increasing the "protectionism" of local industry because there is strong commercial interests between both countries. China is now the largest market for Brazilian products, and this year, became the largest investor in Brazil.

On the other hand the emadurecimento stage acceleration market giveaways caused by CVV, put that many companies of evidence en sector, besides the frequent management problems must rethink the own business model. The should be aware of the two empresarios important opportunities for years to come. On the one hand the accelerated growth of the promotional market and on the other, the international sporting events we in Brazil in the coming years.